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SUBJECT: CANADIAN TRADE MISSION TO CHINA HIGHLIGHTS
ENERGY, EDUCATION, TECHNOLOGY, TRANSPORTATION

REF: (A) OTTAWA 228
(B) 04 OTTAWA 2885 (Canada investment rules)
(C) 04 OTTAWA 625 (Canada-Asia trade)

1. SUMMARY/INTRODUCTION: Economic relations with China were a key focus of Prime Minister Paul Martin's January tour of South and East Asia (which also touched on tsunami relief and a range of political issues - see ref A). China displaced Japan in the past decade as Canada's largest trading partner after the United States. In recent years, growth of this trade has been concentrated in resource-based commodities such as wood and wood pulp, metals, energy products and chemicals. A separate report will outline Chinese investors' interest in Canada's energy sector.

2. Ref C outlined Canada's trade relations with major East Asian partners. Canadian businesses share most of the problems of their U.S.-based counterparts (indeed, in many cases they are the same corporate entities, and/or Canadian content is trans-shipped through U.S. firms). Canadian officials have come to view these trade relations in a continental framework.

END SUMMARY/INTRODUCTION

TRADE THRUSTS: SERVICES NOW, OIL TO COME?

3. International Trade Minister Jim Peterson led the trade side of the January 18-25 Canadian mission, which visited Shanghai, Beijing and Hong Kong. Some 280 Canadian companies were represented, and over 100 company-to-company agreements were signed, along with ten government-to-government agreements in a range of areas. While some of these "agreements" merely commit the parties to further talks, there appeared to be real substance in the following areas:

4. ENERGY AND MINING: Canada and China have formed a deputies-level "joint working group" on energy, with specific reference to oil sands and nuclear technologies. Canadian policymakers are thinking of China as a strategic market for oil (see septel) and forest product exports from western Canada. One Canadian firm signed a five-year agreement to supply crude oil to China. More immediately, Canadian firms will provide a variety of services to help develop energy resources in China, such as oil and gas, thermal electricity generation, and coal-based methane and methanol. Others agreed to help explore and develop gold and other metal deposits, and to develop mining facilities in China. The GOC continues to seek stronger investor protection for these players, some of whom have ventured into exploration in China only to find themselves excluded from the benefits of development and production.

5. EDUCATION AND TRAVEL: Nearly 30 commercial agreements were signed in the educational services area alone. In most cases, Canadian organizations would help establish training programs in China, in a range of areas from auto repair to nursing. Some of these programs would prepare Chinese students for entry into programs in Canada. Also, on January 21, 2005 China granted "Approved Destination Status" (ADS) to Canada, meaning that Chinese citizens are now able to travel to Canada for tourism; previously Chinese could only visit for business purposes. Canadian interests spent five years negotiating ADS, which they expect will reverse the recent decline in Chinese tourism to Canada and raise the number of Chinese visitors to one million per year by 2010.

6. TECHNOLOGY: Numerous deals involve Canadian firms providing products and services in areas such as

livestock genetics, pharmaceuticals, cancer diagnostics, fiber optics, wireless communications, data exchange, multimedia production, imaging, and satellite TV. One telecom industry veteran who took part told us that the Chinese tend to be overly focused on engineering, and can benefit from North American help in learning the crucial "human side" of technology businesses: project management, quality control, brand development, marketing, and customer service. (Comment: While Canadian media have quoted intelligence sources' warnings about Chinese technological espionage, this did not come up in our conversations with trip participants. End comment).

CHINA IN THE INTERNATIONAL SYSTEM

17. In addition to the deputies-level working group on energy mentioned above, Canada and China have also formed a deputies-level "strategic working group" to deepen cooperation in the multilateral arena. On the economic side, this group is tasked to do the following:

-- support a meeting of G-20 leaders.

-- identify areas for cooperation in APEC and the WTO. The two sides promised to make joint efforts for the early conclusion of the Doha Development Agenda.

-- work together in multilateral environment fora.

18. A joint statement said that "China reiterates its concern on the issue of market economy status and underlined the significance it attaches to the issue. Canada acknowledges that China has made significant gains in the process of building a mature market economic system." One senior Canadian official acknowledged that market economy status is not something that can be "conferred" by trading partners, but said this wording was a result of pressure from the Chinese. Officials have told us that this wording will make no practical difference in how Chinese exports are treated in AD/CVD investigations; the Chinese have probably been pushing the issue to bolster their case for market economy status with the U.S. and other trading partners.

NORTH PACIFIC SHIPPING "FAST TRACK"

19. Vancouver, Canada's dominant West Coast port, has been challenged in recent years to keep up with the expansion in trans-Pacific goods traffic. One feasible Canadian alternative is Prince Rupert, near the southern tip of the Alaska panhandle, where a transcontinental rail line already connects to a deep-water harbor. Promoters have advanced the idea that if this underused grain port were redeveloped for container and/or commodity traffic, its northern location - which makes it relatively close to key East Asian ports - would give it an advantage over other ports on North America's west coast in "fast-tracking" goods to central and eastern North America.

110. Prime Minister Martin endorsed this "Pacific gateway" concept in his speech in Beijing on January 21, saying that Vancouver and Prince Rupert form "the ideal gateway from China to North America and from North America to China." The GOC is considering helping to finance the expansion of Prince Rupert's infrastructure.

111. Prince Rupert is also the port through which crude oil from Alberta's oilsands would most likely be shipped to Asia. Enbridge, a major pipeline firm, is proposing to build this line and is seeking commitments from Asian refiners.

TABLE 1
CANADA'S EXPORTS BY COUNTRY
(BILLION CANADIAN DOLLARS, JANUARY-NOVEMBER DATA)

MARKET	2004 EXPORTS	PERCENTAGE CHANGE OVER 2003
UNITED STATES	322.3	7.0
JAPAN	7.8	5.1
U.K.	6.7	20.9
CHINA	6.0	41.9
MEXICO	2.7	35.3
ALL COUNTRIES	379.9	8.4

TABLE 2
CANADA'S IMPORTS BY COUNTRY
(BILLION CANADIAN DOLLARS, JANUARY-NOVEMBER DATA)

MARKET	2004 EXPORTS	PERCENTAGE CHANGE OVER 2003
UNITED STATES	191.0	1.4
CHINA	22.0	28.5
MEXICO	12.3	9.4
JAPAN	12.2	-3.9
U.K.	9.0	6.3
ALL COUNTRIES	324.9	5.0

TABLE 3
2004 VALUE AND YEAR-ON-YEAR GROWTH IN CANADA'S
EXPORTS TO CHINA, SELECTED H.S. CATEGORIES
(BILLION CANADIAN DOLLARS, JANUARY-NOVEMBER DATA)

CATEGORY	2004 VALUE	Y/Y GROWTH
27- FUELS ETC.	62.8	12.2
2709- CRUDE OIL	23.1	21.9
29- ORGANIC CHEMICALS	4.2	43.6
44- WOOD	20.1	27.3
4407- LUMBER	10.5	31.9
4410- PARTICLE BD	3.9	39.3
4418- WINDOWS ETC	2.1	24.7
72- IRON AND STEEL	4.7	29.4
74- COPPER	2.1	45.8
75- NICKEL	2.5	83.9
87- MOTOR VEHICLES	72.9	3.9
88- AIRCRAFT	7.6	-18.8

SOURCE: STATISTICS CANADA

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